

SUMMIT COUNTY SERVICE AREA #3

Basic Financial Statements and Supplementary Information

December 31, 2005

Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

SUMMIT COUNTY SERVICE AREA #3
Financial Statements and Supplementary Information
For the Year Ended December 31, 2005

TABLE OF CONTENTS

FINANCIAL SECTION

Report of Independent Certified Public Accountants	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Entity-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Fund	16
Statement of Revenues, Expenditures, and Changes in	
Fund Balance - Governmental Fund	17
Reconciliation of the Statement of Revenues, Expenditures, and	
Changes in Fund Balance of Governmental Fund to the	
Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund	
Balance - Budget and Actual - General Fund	19
Statement of Net Assets - Proprietary Fund	20
Statement of Revenues, Expenses and Changes in	
Fund Net Assets - Proprietary Fund	21
Statement of Cash Flows - Proprietary Fund	22
Notes to Financial Statements	23

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Report of Independent Certified Public Accountants on Compliance With	
Laws and Regulations and on Internal Control Over Financial Reporting	
Based on an Audit of Basic Financial Statements Performed in Accordance	
with <i>Government Auditing Standards</i>	33
Report of Independent Certified Public Accountants on State of Utah	
State Legal Compliance Based on an Audit of Financial Statements	
Performed in Accordance with <i>Government Auditing Standards</i>	35
Schedule of findings	37

Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS

559 West 500 South

Bountiful, Utah 84010

801-296-0200

Fax 801-296-1218

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Summit County Service Area #3

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the aggregate remaining fund information of Summit County Service Area #3 (the Service Area), as of and for the year ended December 31, 2005, which collectively comprise the Service Area's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Area's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Summit County Service Area #3 as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2006, on our consideration of the Service Area's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hansen, Bradshaw, Malmrose & Erickson, P.C.

October 30, 2006

Management Discussion and Analysis

As the Board of Trustees of Summit County Service Area #3, we offer readers of the SCSA#3 financial statements this narrative overview and analysis of the financial activities of the Service Area's General Fund and Enterprise fund for the fiscal year ended December 31, 2005.

Financial Highlights

Overall Service Area 2005 Financial Activities

Total assets for the 2005 fiscal year were \$3,895,631 and total liabilities were \$848,409.

The assets of the Service Area exceeded its liabilities at the close of the 2005 fiscal year by \$3,047,222 (net assets). This represents an increase in the net assets of \$164,350 (5.7% increase) over the close of 2004 fiscal year.

Unrestricted net assets for the fiscal year 2005 of \$300,867 were used to meet SCSA#3 ongoing obligations. The unrestricted net assets for 2005 increased by \$24,432 (8.8% increase) over the 2004 fiscal year unrestricted net assets.

GENERAL FUND

- The Service Area's General Fund has a fund balance of \$12,311 for the end of the 2005 fiscal year. The fund balance increased by \$19,945 during 2005. A property tax levy had decreased from 0.00014 to 0.000105 over the last five year prompting the Board of Trustees to increase the tax levy during fiscal year 2006.
- Total General Fund Liabilities for 2005 were \$233,618, with no long term debt. Total General Fund liabilities increased by \$149,877 (179% increase) from the 2004 fiscal year.

ENTERPRISE WATER FUND

- The assets of the Service Area Proprietary Water Fund on December 31, 2005 were \$1,881,399 with total liabilities of \$614,791. Total net assets on December 31, 2005 were \$1,266,608, and increase of \$192,925 (18% increase) over the 2004 fiscal year end. Unrestricted assets on December 31, 2005, were \$288,556 which was used to meet Enterprise Fund obligations and capital fund reserve for water system upgrades.
- Unrestricted net assets in the Water Fund increased by \$4,487 (1.6% increase) over the 2004 fiscal year. This increase came from an increase in water system customer revenue minus the increased cost in electricity charges and water system maintenance.

The Board of Trustees needs to review current water use charges to determine if charges are sufficient to generate funding for capital improvements on the water system. The Service Area Water Fund long-term debt decreased by \$66,432 (9.9% decrease) to a total loan obligation debt of \$601,387 during the 2005 fiscal year ending December 31, 2005.

Overview of the Financial Statements

The *Statement of Net Assets* provides information on all of the Service Area's assets and liabilities, with the difference between the assets and liabilities reported as *net assets*, increases or decreases in net assets serve as indicators of whether the financial status of the Service Area General Fund, or Enterprise Water Fund, is improving or not.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Notes to the Financial Statements* provide additional information that is essential to a fully understand the financial statements and are an integral part of these statements.

Financial Analysis

Net assets may serve over time as a useful indicator of a governmental entity's financial position. Assets of governmental activities exceeded liabilities at the close of the 2005 fiscal year by \$1780,614, a decrease of \$28,575 (1.6% decrease) from the close of the 2004 fiscal year. The major portion of these assets is the Lewis Park/Parcel A land holding and the Service Area road infrastructure. These assets include all ingress and egress roads within the Service Area and designated open space parks for residents and property owners within the area and designated service parcels such as the bus turnaround area where the mail boxes are located. These assets are free of any related debt and are not available for future spending.

Summit County Service Area # 3 Net Assets

	Governmental Activities 2004	Business Type Activities 2004	Total 2004
Current and Other Assets	\$76,107	\$ 356,201	\$432,308
Capital Assets	<u>1,816,823</u>	<u>1,466,712</u>	<u>3,283,535</u>
Total Assets	1,892,930	1,822,913	3,715,843
Long-Term Liabilities outstanding	00	667,818	667,818
Other Liabilities	<u>83,741</u>	<u>81,412</u>	<u>165,153</u>
Total Liabilities	83,741	749,230	832,971
Net Assets:			
Invested in capital assets, net of related debt	1,816,823	732,627	2,549,450
Restricted	00	56,987	56,987
Unrestricted	<u>(7,634)</u>	<u>284,069</u>	<u>276,435</u>
Total Net Assets	<u>1,809,189</u>	<u>1,073,683</u>	<u>2,882,872</u>

	Governmental Activities 2005	Business Type Activities 2005	Total 2005
Current and Other Assets	\$ 245,929	\$ 445,080	\$ 691,009
Capital Assets	<u>1,768,303</u>	<u>1,436,319</u>	<u>3,204,622</u>
Total Assets	2,014,232	1,881,399	3,895,631
Long-Term Liabilities outstanding	00	601,387	601,387
Other Liabilities	<u>233,618</u>	<u>13,404</u>	<u>247,022</u>
Total Liabilities	233,618	614,791	848,409
Net Assets:			
Invested in capital assets, net of related debt	1,768,303	834,932	2,603,235
Restricted	00	143,120	143,120
Unrestricted	<u>12,311</u>	<u>288,556</u>	<u>300,867</u>
Total Net Assets	<u>\$1,780,614</u>	<u>\$1,266,608</u>	<u>\$3,047,222</u>

Summit County Service Area # 3 Changes in Net Assets

	Governmental Activities 2004	Business Type Activities 2004	Total 2004
Revenues			
Charges for Services	\$ 7,500	\$ 165,128	\$ 172,628
Capital Contribution	1,120,000	----	1,120,000
Property and highway taxes	182,167	----	182,167
Miscellaneous	<u>3,608</u>	<u>127,370</u>	<u>130,978</u>
Total Revenues	\$1,313,275	\$292,498	\$1,605,773
Expenses:			
Water	\$ -	\$ 71,797	\$ 71,797
Road Maintenance & snow removal	326,498	----	326,498
Loss on disposal of assets	<u>9,668</u>	----	<u>9,668</u>
Total expenses	<u>336,166</u>	<u>71,797</u>	<u>407,963</u>
Increase in Net Assets	977,109	220,701	1,197,810
Net Assets- beginning of Year	<u>832,080</u>	<u>852,982</u>	<u>1,685,062</u>
Net Assets - end of year	<u>\$1,809,189</u>	<u>\$1,073,683</u>	<u>\$2,882,872</u>

	Governmental Activities 2005	Business Type Activities 2005	Total 2005
Revenues			
Charges for Services	\$ 21,000	\$ 192,927	\$ 213,927
Property and highway taxes	202,019	00	202,019
Miscellaneous	<u>4,833</u>	<u>85,580</u>	<u>90,413</u>
Total Revenues	\$ 227,852	\$ 278,507	\$ 506,359
Expenses:			
Water	\$ 00	\$ 85,582	\$ 85,582
Road Maintenance & snow removal	<u>256,427</u>	<u>00</u>	<u>256,427</u>
Total expenses	<u>256,427</u>	<u>85,582</u>	<u>342,009</u>
Increase in Net Assets	(28,575)	192,925	164,350
Net Assets- beginning of Year	<u>1,809,189</u>	<u>1,073,683</u>	<u>2,882,872</u>
Net Assets - end of year	<u>\$1,780,614</u>	<u>\$1,266,608</u>	<u>\$3,047,222</u>

Governmental Activities. This is the second year to report governmental activities on the new standard. This will be the first year this section will discuss and analyze significant differences in income or spending between the 2004 and 2005 financial statements.

There was a decrease in net assets of the Service Area governmental activities during the current fiscal year of \$28,575 (1.6% decrease) from the close of the 2004 fiscal year.

Receipt of Class B Road Funds was delayed during 2004 and anticipated Construction services fees for residential construction were less than anticipated resulting in lower revenues. This deficit will be eliminated by receipt of the Class B Road funds, increased revenues or transfers during 2005.

There was an increase of \$192,925 in net assets of the Service Area Water Proprietary Fund during the current fiscal year. This increase came from an increase in water system customer revenue minus the increased cost in electricity charges and water system maintenance.

Summit County Service Area # 3 Changes in Fund Balance-General Fund

	2005	2004
Revenues:		
Taxes	\$ 138,736	\$ 122,233
Class B Road Funds	46,048	42,217
Fees in lieu of taxes	17,235	17,717
Construction services fees	21,000	7,500
Interest and other income	<u>4,833</u>	<u>3,608</u>
Total Revenues	\$ 227,852	\$193,275
Expenses:		
Road Maintenance and Snow Removal	\$ 167,659	\$242,302
Capital expenditures: Roads & Buildings	0	0
Professional Services	20,779	15,555
Legal Fees	7,651	9,606
Utilities	962	404
Office Supplies and Expenses	1,460	545
Insurance	5,500	5,389
Parks	2,275	1,360
Other General Administration	<u>1,621</u>	<u>2,817</u>
Total Expenditures	\$ 207,907	\$277,978
Decrease in fund balance	19,945	(84,703)
Fund Balance at beginning of year	<u>(7,634)</u>	<u>77,069</u>
Fund Balance at end of year	<u>\$ 12,311</u>	<u>\$ (7,634)</u>

Expenditures in the General Fund were lower in the fiscal year 2005 due to a decrease in spending on road maintenance and snow removal. No major road improvement projects were done during the 2005 fiscal year. An increase in revenues resulted from higher tax rate and Class B road fund revenue and collection of \$13,500 more in Construction services fees than anticipated in the 2005 budget process.

Summit County Service Area # 3 Changes in Net Assets-Proprietary Fund

	2005	2004
Revenues:		
Water Service Fees	\$ 109,551	\$ 117,443
Water Standby Fees	39,929	21,079
Water Rights fees and other income	<u>10,481</u>	<u>12,948</u>
Total Revenues	\$ 159,961	\$ 151,470
Expenses:		
Water Master Services	\$ 10,984	\$ 9,868
Repairs and Maintenance	2,237	1,159
Professional Services	12,212	12,500
Legal Fees	5,042	679
Utilities	9,160	8,201
Office Supplies and Expenses	1,006	808
Depreciation	<u>40,996</u>	<u>36,372</u>
Total Expenses	\$ 81,637	\$ 69,587
Non-Operating income (expenses)		
Interest income	\$ 10,803	\$ 4,807
Interest expense	(3,945)	(2,210)
Connection fees	32,946	10,142
Application fees	20	3,516
Gain on sale of capital assets	<u>74,777</u>	<u>122,563</u>
Total non-operating income	\$ 114,601	\$138,818
Increase in Net Assets	192,925	220,701
Net Assets at beginning of year	<u>1,073,683</u>	<u>852,982</u>
Net Assets at end of year	<u>\$1,266,608</u>	<u>\$1,073,683</u>

Revenues in the Service Area # 3 Proprietary Water Fund increased by \$8,491 in the 2005 fiscal year. There were no fee structure changes during 2005 and increased revenues were due to increased sales and other income. Expenses in the Water Fund increased \$12,050 (17.3% increase) during 2005. The increase was due in depreciation, maintenance projects, and an increase in professional and legal fees required during the 2005 fiscal year.

Increase in net assets during the 2005 and 2004 fiscal years resulted from sale of (1) residential property held by the Proprietary Water Fund. This property was sold to acquire funding required to finish, equipping and bringing the Greenfield Well on line. Remainder of these funds will be used to fund future improvements to the Service Area water system.

Capital Asset and Debt Administration in the Governmental General Fund

Debt Administration in the General Fund

Summit County Service Area # 3 has no long term debt in the General Fund.

Capital Assets.

The capital assets held by the General Fund includes land designated for parks, including Lewis Park and Parcel A. The Service Area also owns the Civic Center property on Silver Creek Road where the school bus stop is located and the Post office building. This building is the property of the Service Area. The capital assets increased by \$1,120,000 during the 2004 fiscal year due to the addition of the Lewis Park and Parcel A properties following the favorable completion of title litigation on these properties. The Service Area also holds capital assets in the form of the twenty two (22) miles of road infrastructure within Silver Creek Estates.

Service Area # 3 Governmental Activities Capital Assets

	Governmental Fund Activities 2005	Governmental Fund Activities 2004
Land	\$1,120,000	\$1,120,000
Buildings and Improvements	\$ 8,869	\$ 8,869
Infrastructure	\$ 965,972	\$ 965,972
Accumulated depreciation	(326,538)	(278,018)
Total	<u>\$1,768,303</u>	<u>\$1,816,823</u>

Capital Asset and Debt Administration in the Proprietary Water Fund

Service Area # 3 Proprietary Fund Capital Assets

2004 Proprietary Water Fund Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 86,494	\$ ----	\$14,506	\$71,988
Buildings and Improvements	36,184	----	2,750	33,434
Water Distribution System	1,740,173	103,008	39,618	1,803,563
Equipment	<u>6,631</u>	<u>—</u>	<u>—</u>	<u>6,631</u>
Total	\$1,869,482	\$103,008	\$56,874	\$1,915,616
Accumulated depreciation				
Water distribution system	396,553	35,465	12,319	419,699
Building and Improvements	27,319	244	347	27,216
Equipment	<u>1,326</u>	<u>663</u>	<u>----</u>	<u>1,989</u>
Total	425,198	36,372	12,666	448,904
Proprietary Water Fund Net Capital Assets	<u>\$1,444,284</u>	<u>\$66,636</u>	<u>\$44,208</u>	<u>\$1,466,712</u>

2005 Proprietary Water Fund Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 71,988	\$ ----	\$ 7,253	\$ 64,735
Buildings and Improvements	33,434	----	----	33,434
Water Distribution System	1,803,563	17,856	----	1,821,419
Equipment	<u>6,631</u>	<u>----</u>	<u>----</u>	<u>6,631</u>
Total	\$1,915,616	\$17,856	\$ 7,253	\$1,926,219
Accumulated depreciation				
Water distribution system	419,969	40,089	----	459,788
Building and Improvements	27,169	244	----	27,460
Equipment	<u>1,989</u>	<u>663</u>	<u>----</u>	<u>1,989</u>
Total	448,904	40,996	----	489,900
Proprietary Water Fund Net Capital Assets	<u>\$1,466,712</u>	<u>(\$23,140)</u>	<u>\$7,253</u>	<u>\$1,436,319</u>

Capital Assets-Proprietary Water Fund

The capital assets held by the Proprietary Water Fund include land (Echo Lane Property, site of silver bullet water tank, site of underground storage tank, easements for the Greenfield well and the booster pump station). The (2) well houses and all lines, hydrants, etc. that comprise the water distribution system. The water system also has an inventory of equipment at the well house comprised of meters and water system parts, a backup well pump and miscellaneous equipment required for operations of the water system.

Debt Administration in the Water Fund

At the end of the 2005 fiscal year the Service Area # 3 Proprietary Water Fund had total bonded debt outstanding of \$601,387. The Water fund debt represents bonds secured solely by Water fund revenues. The total debt decreased by \$132,698 during the 2005 fiscal year.

SERVICE AREA # 3 PROPRIETARY WATER FUND - Outstanding Debt

Revenue Bonds

	Proprietary Fund Activities	
	2005	2004
Revenue Bonds	<u>\$601,387</u>	<u>\$734,085</u>
Total	<u>\$601,387</u>	<u>\$734,085</u>

The reason for decrease in total debt was the payment of principal due on the bonds.

Economic Factors and Next Year's Budget - General Fund

- Summit County Service Area # 3 General Fund is dependent upon the tax rate revenues, fees in lieu of taxes, Class B road funds and construction services fees for funding for the yearly budget.
- The above factors were considered in preparing the Service Area # 3 2006 budget.
- The deficit in the Service Area's unreserved General Fund balance of (\$7,634) in the 2004 financial statement due to delay in receipt of Class B Road Funds and Construction services fees for residential construction less than anticipated resulting in lower revenues. This deficit was eliminated by receipt of the Class B Road funds and increased revenues during 2005.

Economic Factors and Next Year's Budget - Proprietary Water Fund

- Summit County Service Area # 3 Proprietary Water Fund receives its funding through water use rates, standby and water rights fees and impact connection fees.
- The water rate structures established in 2002 by the Service Area Water Fund will remain the same through 2006 with no anticipated changes.
- The above factors were considered in preparing the Service Area # 3 2006 budget.

Requests for Information

This financial report is designed to provide a general overview of the Summit County Service Area # 3 General and Proprietary Water Funds finances for all those with an interest in the funds finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Trustees for Summit County Service Area # 3, 7215 North Silver Creek Road, Park City, Utah, 84098.

**SUMMIT COUNTY SERVICE AREA #3
STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Governmental Activities	Business-type Activities	TOTAL
ASSETS			
Cash and cash equivalents	\$ 222,432	\$ 207,112	\$ 429,544
Receivables			
Property taxes	10,013	-	10,013
Accounts	-	94,848	94,848
Due from other governments	13,484	-	13,484
Restricted cash and cash equivalents	-	143,120	143,120
Land	1,120,000	64,735	1,184,735
Buildings and improvements	8,869	33,434	42,303
Machinery and equipment	-	6,631	6,631
Distribution and collection systems	-	1,821,419	1,821,419
Infrastructure	965,972	-	965,972
Accumulated depreciation	(326,538)	(489,900)	(816,438)
Total assets	2,014,232	1,881,399	3,895,631
LIABILITIES			
Accounts payable	18,130	3,754	21,884
Customer deposits	99,500	9,650	109,150
Deferred revenue	115,988	-	115,988
Bonds payable			
Due within one year	-	-	-
Due in more than one year	-	601,387	601,387
Total liabilities	233,618	614,791	848,409
NET ASSETS			
Invested in capital assets, net of debt	1,768,303	834,932	2,603,235
Restricted for debt service	-	143,120	143,120
Unrestricted	12,311	288,556	300,867
Total net assets	\$ 1,780,614	\$ 1,266,608	\$ 3,047,222

The notes to the financial statements are an integral part of this statement.

**SUMMIT COUNTY SERVICE AREA #3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Revenues				Business-type Activities	Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities	
Governmental activities						
Road maintenance and snow removal	\$ 256,427	\$ 21,000	\$ -	\$ -	\$ (235,427)	\$ (235,427)
Total governmental activities	256,427	21,000	-	-	(235,427)	(235,427)
Business-type activities						
Water	85,582	192,927	-	-	107,345	107,345
Total business-type activities	85,582	192,927	-	-	107,345	107,345
General revenues						
Taxes						
Property taxes					155,971	155,971
Highway sales taxes					46,048	46,048
Interest income					2,500	10,803
Gain on sale and disposal of assets					-	74,777
Miscellaneous					2,333	2,333
Total general revenues					206,852	292,432
Change in net assets					(28,575)	164,350
Net assets - beginning					1,809,189	2,882,872
Net assets - ending					\$ 1,780,614	\$ 3,047,222

The notes to the financial statements are an integral part of this statement.

SUMMIT COUNTY SERVICE AREA #3
Balance Sheet - Governmental Fund
December 31, 2005

ASSETS

Assets:	
Cash and cash equivalents	\$222,432
Receivables:	
Class B road funds	13,484
Taxes	<u>10,013</u>
Total assets	<u>\$245,929</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ 18,130
Deposits - roads	99,500
Deferred revenue - Mill levy taxes	<u>115,988</u>
Total liabilities	<u>233,618</u>
Fund balance:	
Undesignated	<u>12,311</u>
Total fund balance	<u>12,311</u>
Total liabilities and fund balance	<u>\$245,929</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund	\$1,768,303
Fund balance per above	<u>12,311</u>
Net assets of governmental activities	<u>\$1,780,614</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT COUNTY SERVICE AREA #3
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Governmental Fund
For the Year Ended December 31, 2005

	<u>General Fund</u>
Revenues:	
Taxes	\$138,736
Class B road funds	46,048
Fees in lieu of taxes	17,235
Construction services fees	21,000
Interest and other income	<u>4,833</u>
Total revenues	<u>227,852</u>
Expenditures:	
Road maintenance and snow removal	167,659
Professional services	20,779
Legal fees	7,651
Utilities	962
Office supplies and expenses	1,460
Insurance	5,500
Parks	2,275
Other general administration	<u>1,621</u>
Total expenditures	<u>207,907</u>
Excess of revenues over expenditures	19,945
Fund balance (deficit) - at beginning of year	(7,634)
Fund balance - at end of year	<u>\$ 12,311</u>

The notes to the financial statements are an integral part of this statement.

**SUMMIT COUNTY SERVICE AREA #3
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Fund
To the Statement of Activities
For the Year Ended December 31, 2005**

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balance - governmental fund (page 15)	\$ 19,945
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(48,520)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	---
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	---
Change in net assets of governmental activities (page 13)	<u>(\$ 28,575)</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT COUNTY SERVICE AREA #3
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual - General Fund
For the Year Ended December 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes	\$112,439	\$112,439	\$138,736	\$ 26,297
Class B road funds	40,000	40,000	46,048	6,048
Fees in lieu of taxes	19,000	19,000	17,235	(1,765)
Construction services fees	15,000	15,000	21,000	6,000
Interest and other income	<u>5,000</u>	<u>5,000</u>	<u>4,833</u>	<u>(167)</u>
Total revenues	<u>191,439</u>	<u>191,439</u>	<u>227,852</u>	<u>36,413</u>
Expenditures:				
Road maintenance and snow removal	166,808	166,808	167,659	(851)
Professional services	15,000	15,000	20,779	(5,779)
Legal fees and insurance	15,000	15,000	13,151	1,849
Utilities	1,000	1,000	962	38
Office supplies and expenses	1,131	1,131	1,460	(329)
Parks	500	500	2,275	(1,775)
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>1,621</u>	<u>379</u>
Total expenditures	<u>206,439</u>	<u>201,439</u>	<u>207,907</u>	<u>(6,468)</u>
Excess (deficiency) of revenues over expenditures	(10,000)	(10,000)	19,945	29,945
Fund balance - beginning of year	(7,634)	(7,634)	(7,634)	---
Fund balance - end of year	<u>(\$ 17,634)</u>	<u>(\$ 17,634)</u>	<u>\$ 12,311</u>	<u>(\$ 29,945)</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT COUNTY SERVICE AREA #3
Statement of Net Assets - Proprietary Fund
December 31, 2005

<u>ASSETS</u>	<u>Water Fund</u>
Current assets:	
Cash and cash equivalents	\$ 207,112
Accounts receivable, net	<u>94,848</u>
Total current assets	<u>301,960</u>
Restricted cash and cash equivalents	<u>143,120</u>
Capital assets:	
Land	64,735
Building and improvements	33,434
Water distribution system and improvements	1,821,419
Machinery and equipment	6,631
Accumulated depreciation	<u>(489,900)</u>
Net capital assets	<u>1,436,319</u>
Total assets	<u>1,881,399</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	3,754
Deposits	9,650
Bonds payable current	<u>---</u>
Total current liabilities	13,404
Noncurrent liabilities - bonds payable	<u>601,387</u>
Total liabilities	<u>614,791</u>
Net assets:	
Invested in capital assets, net of related debt	834,932
Restricted for debt service	143,120
Unrestricted	<u>288,556</u>
Total net assets	<u><u>\$1,266,608</u></u>

The notes to the financial statements are an integral part of this statement.

SUMMIT COUNTY SERVICE AREA #3
Statement of Revenues, Expenses and Changes
in Fund Net Assets- Proprietary Fund
For the Year Ended December 31, 2005

	<u>Water Fund</u>
Revenue:	
Water service fees	\$ 109,551
Water standby fees	39,929
Water rights fees and other income	<u>10,481</u>
Total revenues	<u>159,961</u>
Operating expenses:	
Legal fees	5,042
Water master services	10,984
Repairs and maintenance	2,237
Professional services	12,212
Utilities	9,160
Office supplies and expenses	1,006
Depreciation	<u>40,996</u>
Total operating expenses	<u>81,637</u>
Operating income	<u>78,324</u>
Non-operating income (expenses)	
Interest income	10,803
Interest expense	(3,945)
Connection fees	32,946
Application fees	20
Gain on sale of capital assets	<u>74,777</u>
Total non-operating income	<u>114,601</u>
Change in net assets	192,925
Net assets - beginning of year	<u>1,073,683</u>
Net assets - end of year	<u><u>\$1,266,608</u></u>

The notes to the financial statements are an integral part of this statement.

SUMMIT COUNTY SERVICE AREA #3
Statement of Cash Flows - Proprietary Fund
For the Year Ended December 31, 2005

	<u>Water Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$147,760
Cash payments for goods and services	(42,382)
Net cash provided by operating activities	<u>105,378</u>
Cash flows from capital and related financing activities:	
Purchase of property and equipment	(17,856)
Principal payments on bonds	(132,698)
Interest paid on bonds	(3,945)
Connection fees received	32,946
Application fees received	20
Proceeds from sale of capital assets	<u>82,030</u>
Net cash provided (used) by capital and related financing activities	<u>(39,503)</u>
Cash flows from investing activities:	
Receipts of interest	<u>10,803</u>
Net cash provided by investing activities	<u>10,803</u>
Net increase in cash and cash equivalents	76,678
Cash and cash equivalents, beginning of year	<u>273,554</u>
Cash and cash equivalents, end of year	<u><u>\$350,232</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 78,324
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation expense	40,996
Increase in accounts receivable	(12,201)
Decrease in accounts payable	(5,541)
Increase in customer deposits	<u>3,800</u>
Net cash provided by operating activities	<u><u>\$105,378</u></u>

The notes to the financial statements are an integral part of this statement.

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements
December 31, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Summit County Service Area #3 (the Service Area) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Service Area's accounting policies are described below.

Reporting Entity - The Summit County Service Area #3 was organized in September 7, 1964 by the original developer of the Silver Creek Estates Subdivision. Its boundaries and services were expanded by a resolution in November of 1982 and approved by the Summit County Commissioners. The Service Area operates under the direction of the Board of Trustees. The Service Area provides snow removal, road maintenance and culinary water services.

Although the Service Area operates with the approval of the Summit County Commission, the Summit County Auditor chooses not to include the Service Area as a component unit of Summit County in its financial statements. The Service Area has not identified any entities which should be included as component units of the Service Area.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Service Area. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Road taxes and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the Service Area.

The Service Area reports the following major governmental fund:

The General Fund is the Service Area's primary operating fund. It accounts for all financial resources of the Service Area, except for those required to be accounted for in another fund.

The Service Area reports the following major proprietary fund:

The Water Fund accounts for the activities of the Service Area's water production, treatment and distribution operations.

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash, Deposits and Investments Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. Service Area policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The State Treasurer's Investment Fund operates in accordance with state laws and regulations. The reported value of the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less when purchased meet this definition.

Receivables and Payables Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to or due from other funds". In the Water fund, the Service Area records utility revenues billed to customers when meters are read on a monthly basis. Unbilled service accounts receivable at December 31, 2005 are not material and are not recorded.

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Service Area as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 to 40 years
Infrastructure	20 years
Machinery and equipment	10 years
Water distribution system	20 to 50 years

Long-Term Obligations In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Assets Restricted assets are comprised of cash restricted for future payments of principal and interest on debt service as well as unexpended portions of bonds issued for capital construction purposes.

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

2. **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant and equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in the governmental fund. However, the statement of net assets includes those capital assets among the assets of the Service Area as a whole.

Cost of capital assets	\$2,094,841
Accumulated depreciation	<u>(326,538)</u>
Total difference	<u><u>\$1,768,303</u></u>

Explanation of Certain Differences Between Governmental Fund Operating Statements and the Statement of Net Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follow:

Capital outlay	\$ ---
Depreciation expense	<u>48,520</u>
Net difference as reported	<u><u>(\$48,520)</u></u>

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

3. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets and the Budgetary Process - The Board of Trustees adopts an annual operating budget, which can be amended by the Board throughout the year. Formal budgetary accounting is employed as a management control for all funds of the service area. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

At the fund level, actual expenditures cannot exceed budgeted appropriations; however with proper approval by the Board of Trustees, budgetary transfers between line items can be made. The budgeted financial statements represented in this report reflect the final budget authorization, including all amendments. During the fiscal year ended December 31, 2005, budgetary amendments totaling \$41,892 additional expenditures were approved by the Board.

4. **DETAILED NOTES FOR ALL FUNDS**

Cash, Cash Equivalents and Investments

Following are the components of the Service Area's cash and investments at December 31, 2005:

Cash	\$138,283
Public Treasurer's Pool	<u>434,381</u>
Total	<u><u>\$572,664</u></u>

Included in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$429,544
Restricted cash and cash equivalents	<u>132,120</u>
Total	<u><u>\$572,664</u></u>

Deposits and Investments

Custodial credit risk - deposits. This is the risk that in the event of a bank failure, the Service Area's deposits may not be returned. As of December 30, 2005, \$108,412 of the Service Area's \$208,412 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. The Utah Money Management Act does not require deposits to be insured or collateralized and the Service Area has no formal policy regarding deposit credit risk. The Act requires that the Service Area keep deposits in a qualified depository, which the Service Area has done.

Custodial Credit Risk - Investments. This is the risk that in the event of the failure of the counterparty, the Service Area will not be able to recover the value of its investments that are in the possession of an outside party. The Service Area has no formal policy regarding custodial credit risk for investments. Money invested in the Utah Public Treasurer's Investment Fund is pooled with many other state and local entities, and is managed by the Utah State Treasurer. The Fund is not categorized as to custodial credit risk.

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

4. DETAILED NOTES FOR ALL FUNDS (CONTINUED)

Deposits and Investments (Continued)

Interest rate credit risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Service Area's policy for managing its exposure to fair value loss from changes in interest rates is to follow the Utah Money Management Act and only invest in instruments that mature in one year or less. Investment within the Public Treasurer's Investment Fund have a weighted average maturity of less than ninety days.

Credit risk is the risk that an issuer will not fulfill its obligations. The Service Area policy is consistent with and complies with the Utah State Money Management Act. Investment is limited to U.S. Treasuries, U.S. Government Agency instruments, Utah Public Treasurer's Investment Fund, and other instruments that are rated A or higher by Standard & Poor's or Moody's. The Service Area only invested in the Utah Public Treasurer's Investment Fund during the year.

Concentration of credit risk. The Service Area policy requires diversification and limits the amount that may be invested in the same company. The Service Area has invested only in the Utah Public Treasurer's Investment Fund. The Utah Public Treasurer's Investment Fund is highly diversified and must comply with various rules of the Utah State Money Management Act and Money Management Council.

Property Taxes

The Service Area and Summit County Tax Assessor and Treasurer are responsible for assessing, collecting and distributing the property taxes in accordance with enabling state legislation.

All property taxes are recognized when they become measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period.

Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$1,120,000	\$ ---	\$ ---	\$1,120,000
Buildings and improvements	8,869	---	---	8,869
Infrastructure	<u>965,972</u>	<u>---</u>	<u>---</u>	<u>965,972</u>
	<u>2,094,841</u>	<u>---</u>	<u>---</u>	<u>2,094,841</u>
Less: accumulated depreciation				
Buildings and improvements	777	222	---	999
Infrastructure	<u>277,241</u>	<u>48,298</u>	<u>---</u>	<u>325,539</u>
	<u>278,018</u>	<u>48,520</u>	<u>---</u>	<u>326,538</u>
Net governmental capital assets	<u>\$1,816,823</u>	<u>\$ 48,520</u>	<u>\$ ---</u>	<u>\$1,768,303</u>

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

4. DETAILED NOTES FOR ALL FUNDS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Land	\$ 71,988	\$ ---	\$7,253	\$ 64,735
Water distribution system	1,803,563	17,856	---	1,821,419
Building and improvements	33,434	---	---	33,434
Equipment	<u>6,631</u>	<u>---</u>	<u>---</u>	<u>6,631</u>
	<u>1,915,616</u>	<u>17,856</u>	<u>7,253</u>	<u>1,926,219</u>
Accumulated depreciation				
Water distribution system	419,699	40,089	---	459,788
Building and improvements	27,216	244	---	27,460
Equipment	<u>1,989</u>	<u>663</u>	<u>---</u>	<u>2,652</u>
	<u>448,904</u>	<u>40,996</u>	<u>---</u>	<u>489,900</u>
Business-type activities net capital assets	<u>\$1,466,712</u>	<u>(\$ 23,140)</u>	<u>\$7,253</u>	<u>\$1,436,319</u>

In the government-wide financial statements depreciation was charged as follows by program or activity:

Governmental activities:	
Roads and snow removal	<u>\$48,520</u>
Total depreciation expense - governmental activities	<u>\$48,520</u>
Business-type activities:	
Water	<u>\$40,996</u>
Total depreciation expense - business type activities	<u>\$40,996</u>

Long-Term Debt

Long-term debt consists of the following at December 31, 2005:

Series 1988 service water revenue bonds payable, dated September 7, 1988, interest payable annually at 5% per annum, maturing in annual installments of \$5,321 from 1989 through 2014	\$34,387
Series 1993 water revenue bonds payable, dated September 28, 1993, non-interest bearing, maturing in annual installments of \$53,000 from 1996 through 2001 and in annual installments of \$63,000 from 2002 through 2015. Payments are due on January 1st each year	<u>567,000</u>
	<u>\$601,387</u>

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

4. DETAILED NOTES FOR ALL FUNDS (CONTINUED)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Business-type activities:					
Bonds payable:					
Water revenue	<u>\$734,085</u>	<u>\$ ---</u>	<u>\$132,698</u>	<u>\$601,387</u>	<u>\$ ---</u>
Total bonds payable	734,085	---	132,698	601,387	---
Other long-term debt	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Business-type activity long-term liabilities	<u>\$734,085</u>	<u>\$ ---</u>	<u>\$132,698</u>	<u>\$601,387</u>	<u>\$ ---</u>

The scheduled maturities of long-term debt at December 31, 2005 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ ---	\$ ---	\$ ---
2007	66,602	1,719	68,321
2008	66,782	1,539	68,321
2009	66,972	1,349	68,321
2010	67,170	1,151	68,321
2011-2015	<u>333,861</u>	<u>2,162</u>	<u>336,023</u>
	<u>\$601,387</u>	<u>\$7,920</u>	<u>\$609,307</u>

Related Party Transactions

No related party transactions have occurred between any member of the Board of Trustees or other residents who submit bids and or provide services to the Service Area. All management duties are entirely voluntary. Some clerical duties are performed at a minimum wage level as non-employee compensation by a resident of the Service Area. The Board contracts the services of a part-time certified water manager when needed to oversee the Water Company operations.

SUMMIT COUNTY SERVICE AREA #3
Notes to the Financial Statements (Continued)
December 31, 2005

4. DETAILED NOTES FOR ALL FUNDS (CONTINUED)

Water Line Extension

In accordance with the Bond Resolution, the Board of Trustees offered owners of property within the Service Area, along the route of the extension, who had not connected with the new water lines an opportunity to connect. If the owners would prepay the connection fees, the Service Area would extend the water line to their properties for hookup. In 2005, \$32,946 in revenues were collected from this source.

Fund Equity

Reservations of fund equity of governmental or proprietary funds are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund equity accounts are summarized below:

Reserve for Debt Service - The reserve for debt service was created in conjunction with the issuance of revenue bonds and is funded by initial deposits from the proceeds of such bonds and by transfers from the revenue accounts based on assets held by the Enterprise Funds that are restricted for debt service. The purpose of the reserved retained earnings is to service the revenue bonds principal and interest payments annually.

Risk Management

The Service Area is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets errors and omissions; injuries to employees; and natural disasters. The Service Area carries insurance through the Utah Local Government Insurance Trust for all of these risks of loss. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Expenses and claims not covered by insurance are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The Service Area management estimates that the amount of actual or potential claims against the Service Area as of December 31, 2005 will not materially affect the financial condition of the Service Area.

Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS

559 West 500 South

Bountiful, Utah 84010

801-296-0200

Fax 801-296-1218

Lynn Hansen, CPA
Clarke R. Bradshaw, CPA
Gary E. Malmrose, CPA
Edwin L. Erickson, CPA
Michael L. Smith, CPA

Jason L. Tanner, CPA
Robert D. Wood, CPA

Members of the
American Institute
of Certified Public
Accountants

Members of the
Private Company
Practice Section

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Summit County Service Area #3

We have audited the basic financial statements of the Summit County Service Area #3 (the Service Area) as of and for the year ended December 31, 2005, and have issued our report thereon dated October 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance As part of obtaining reasonable assurance about whether the Service Area's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Service Area in a separate letter dated October 30, 2006.

Internal Control Over Financial Reporting In planning and performing our audit, we considered the Service Area's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Service Area in a separate letter dated October 30, 2006.

This report is intended solely for the information of the Board of Trustees, management, and federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hansen, Bradshaw, Malmrose & Erickson, P.C.

October 30, 2006

Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

559 West 500 South
Bountiful, Utah 84010
801-296-0200
Fax 801-296-1218

Lynn Hansen, CPA
Clarke R. Bradshaw, CPA
Gary E. Malmrose, CPA
Edwin L. Erickson, CPA
Michael L. Smith, CPA

Jason L. Tanner, CPA
Robert D. Wood, CPA

Members of the
American Institute
of Certified Public
Accountants

Members of the
Private Company
Practice Section

INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE IN ACCORDANCE WITH THE STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE

Board of Trustees
Summit County Service Area #3

We have audited the basic financial statements of the Summit County Service Area #3 (The Service Area) for the year ended December 31, 2005 and have issued our report thereon dated October 30, 2006. Our audit include test work on the Service Area's compliance with those general compliance requirements identified in the *State of Utah Legal Compliance Audit Guide*, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property Tax Limitations
- Special Districts
- Other General Compliance Issues

The Service Area did not receive any major or non-major State Grants during the year ended December 31, 2005.

The management of the Service Area is responsible for the Service Area's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Service Area's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying letter to management. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Service Area complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Hansen, Bradshaw, Malmrose & Erickson, P.C.

October 30, 2006

SUMMIT COUNTY SERVICE AREA #3
Schedule of Findings
Year Ended December 31, 2005

Requirement/Program Current Year Findings

1. Budgetary
Compliance

Finding: In accordance with State law, officers and employees of an entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department. For the year ended December 31, 2005, expenditures exceeded budgeted amounts in the general fund by \$6,468.

Recommendation: The Service Area should monitor the status over expenditures as compared to budget through the year.

Management's Response: The Board of Trustees will monitor monthly budgeted payables and expenditures so as not to incur expenditures in excess of the appropriation for that department. If required the Board will reopen and amend the budget to re-appropriate funds from other departments to cover necessary expenditures.

2. Public Funds

Finding: The Utah Code requires that public funds be deposited at least every three days. We noted several instances where deposits were not made within three days of receipt.

Recommendation: We suggest all receipts be deposited within the time frame established by the Code.

Management's Response: The Board of Trustees will monitor the depositing of funds and establish a system to meet Code.